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Middle Class Tax Share Set to Rise

Studies Say Burden Of Rich to Decline

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Three successive tax cuts pushed by President Bush will leave middle-income taxpayers paying a greater share of all federal taxes by the end of the decade, according to new analyses of the Bush administration's tax policies.

As critics of the tax cuts in 2001, 2002 and 2003 have noted, the very wealthiest Americans -- those earning \$337,000 or more per year -- will be the greatest beneficiaries of the changes in the nation's tax laws. And, as administration officials have argued, low-income taxpayers will also enjoy a disproportionately lighter tax burden.

The result is that a broad swath of lower-middle, middle- and upper-middle-income people, as well as some rich Americans, will carry a greater share of the federal tax burden after the laws passed in the past three years are fully implemented. While taxes are scheduled to decline for all income groups, those earning more than \$28,000 but less than \$337,000 will end up paying a greater share of the taxes than they did before the changes.

The findings, by two groups that have been critical of the Bush administration's tax policies, add a new wrinkle to the increasingly contentious debate over the fairness of Bush's tax policies and which income groups would benefit most.

Liberal groups have argued that the Bush administration is penalizing the poor while rewarding the rich. In part to answer those critics, Republicans have targeted the poor with expanded tax refund checks for families with children, a new 10 percent tax bracket and a larger earned-income credit for married couples who are poor.

The result may be a surprise to both sides: By the end of the decade, the middle class will be picking up a greater share of the government's tab.

"It's hard to get a lot of progressivity at the very top," said R. Glenn Hubbard, the architect of Bush's most recent tax cut proposal and a former chairman of the White House Council of Economic Advisers. By slashing taxes on dividends, capital gains and inheritances, the cuts ensure that tax burdens will no longer rise consistently with income, as they would with a perfectly "progressive" system. "But," Hubbard added, "we've very much retained progressivity overall because so much money was dumped into the bottom rates."

The two studies focused on separate issues. Citizens for Tax Justice examined the percentage changes in total federal taxes that would be paid by different income groups through 2010. The Tax Policy Center, jointly run by the Brookings Institution and the Urban Institute, looked at the share of federal taxes that would remain for the various groups once those changes are fully phased in. But the studies reached similar conclusions.

Citizens for Tax Justice found that for the lowest fifth of taxpayers -- those earning below \$16,000 --

federal taxes would fall 10 percent between now and 2010, while federal taxes for those in the second quintile -- earning between \$16,000 to \$28,000 -- would fall 12 percent. At the other end of the scale, the decline for the top 1 percent of taxpayers -- those making \$337,000 and up -- would be 15 percent.

In contrast, for taxpayers earning between \$45,000 and \$337,000, the decline would be 7 percent, less than half the cut reaped by the very wealthy.

Citizens for Tax Justice assumed that those provisions in the tax laws scheduled to expire before 2011 would expire as scheduled, although administration officials have said they are determined to make those changes permanent.

The Tax Policy Center assumed that all proposed tax cuts would become permanent. It found that the share of federal taxes paid by the top 1 percent of taxpayers would drop to 22.8 percent of the total in 2011, from 24.3 percent today, while the share paid by the lowest 40 percent would fall to 2 percent, from 2.2 percent.

All others would have a slightly larger proportion of the federal tax burden in 2011 than they do today. For families earning between \$22,955 and \$80,903, their share of federal taxes would rise from 25.5 percent to 26.1 percent.

Both groups included all federal income, payroll, corporate and estate taxes; Citizens for Tax Justice also included excise taxes.

Treasury Department officials said the studies are skewed because they include Social Security and Medicare payroll taxes, which the tax cuts did not seek to reduce. Pamela F. Olson, the assistant Treasury secretary for tax policy, said that if Social Security taxes are included, then Social Security benefits should also be measured. "Then you would have a very progressive system," she said.

Instead, Olson pointed to the Treasury's analysis of the impact of successive tax cuts on individual income taxes only. In that analysis, all taxpayers with less than \$100,000 in income are shown to be paying a smaller percentage of their income in taxes than they did before Bush took office. Households earning \$100,000 or more are now paying 73.3 percent of federal income taxes, up from 70 percent.

Figuring out whether tax policy benefits the wealthy or the poor is a hotly disputed subject. Liberals favor a progressive tax system in which households pay higher tax rates and a higher share of their total income as they climb up the income ladder. By that measure, the Bush tax cuts have made the tax code less progressive. By 2011, the poorest taxpayers' after-tax income will have risen only 0.3 percent, according to the Tax Policy Center, while household income for the richest 1 percent of taxpayers will have jumped 8.6 percent.

Conservatives say the better measure is which group winds up paying a greater proportion of the tax burden after the tax cut. The rich may get the largest dollar benefit from the tax cuts, but the top 20 percent of households will still be paying 71.5 percent of all federal taxes in 2011.

Conservatives and liberals alike agree that Bush's tax policies have shifted more of the tax burden to the middle class. Kevin Hassett, a conservative economist with the American Enterprise Institute, said it "makes complete sense" that this would happen as a result of Bush's policies.

Changes such as the elimination of the estate tax and the reduction of the stock-dividend tax disproportionately benefit the wealthiest 1 percent, who have the largest amount of assets and capital.

Those at the other end of the income spectrum benefit disproportionately from targeted tax cuts such as the child tax credit.

With the biggest gains going to the wealthiest and to low-income taxpayers, those in the middle inevitably get a higher tax burden because they don't qualify for the targeted tax breaks that go to the poor or the investment-related tax breaks that go to the wealthy. "The middle class is predominantly labor income," Hassett said.

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